BEST ADVICE

From the Addiction Research Foundation

Retail Alcohol Monopolies: Preserving the Public Interest

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Fondation de la recherche sur la toxicomanie

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Governments have often taken an active interest in the way beer, wine and liquor are sold. In all ten Canadian provinces - as well as 18 U.S. states and a number of European and developing countries - this interest has led governments to set up state-run monopolies on the sale of alcohol.

The Liquor Control Board of Ontario (LCBO), for example, is the province's only retailer of liquor and imported wine. The LCBO also regulates the sale of beer and wine through Brewers Retail stores and outlets operated by individual manufacturers. In addition, the Liquor License Board of Ontario regulates the sale of alcohol for on-premises consumption at the province's roughly 14,500 licensed establishments.

The reasons for government control of the alcohol market have varied from place to place and over time. In the 20th century, government alcohol monopolies have had two principal goals: to generate government revenue and to reduce the harmful effects of alcohol on public health and public order.

Over the last decade, however, government control of alcohol sales have come under a series of attacks.

At one level, while public awareness of the health and other consequences of alcohol abuse has risen, there is also a tendency to view choices about health and lifestyle as matters best left to individuals. It has been argued, for example, that governments should limit themselves to education concerning alcohol abuse, rather than actively regulating alcohol prices and availability.

At another level, shifts toward international free trade threaten to erode the ability of governments to control their domestic alcohol markets.

Whether it is alcohol manufacturers wanting freer access to markets, consumer advocates calling for lower prices and easier availability, or entrepreneurs hoping to enter the alcohol business, these pressures tend toward the same conclusion; the privatization, in whole or in part, of state alcohol monopolies.

ALCOHOL: NOT JUST ANOTHER CONSUMER PRODUCT

Alcohol is deeply rooted in our society but it is not just another consumer product, like fruit juice or breakfast cereal. On the contrary, the sale and use of alcohol carry a heavy price in terms of the public health.

While most alcohol users do not encounter serious problems, one in every ten drinkers in Ontario runs a high risk of alcohol dependence. Between three and seven per cent of the adult population are severely dependent on alcohol. And even low or moderate levels of use can lead to workplace or traffic injuries, increase the risk of certain cancers and, during pregnancy, affect the development of the fetus.

The health and social consequences of alcohol abuse are profound. In Canada, alcohol plays a role in 19,000 deaths each year through heart and liver disease, cancer, suicide, traffic crashes and other accidents. In Ontario alone about 640,000 people report some physical, social or health-related harm resulting from their own drinking. While it is hard to put a price tag on these problems, scientists at the Addiction Research Foundation estimate that in 1990 alcohol abuse cost Ontarians roughly $ 5.8 billion in increased health care, social welfare and law enforcement and lost productivity.

Moreover, research shows that when alcohol is made more available, consumption increases. We also know that when overall consumption rises, so does the number of people who experience alcohol-related problems.

Because of the health and social costs associated with alcohol use, governments and the public have a direct interest in ensuring that alcohol is sold in a socially responsible manner.

THE CHALLENGE TO ALCOHOL MONOPOLIES

From their first emergence in Sweden in the mid-19th century, modern government alcohol monopolies have been seen as an important way to promote public health and prevent social disorder. In the period before the First World War, local governments in Scandinavian and English-speaking countries commonly established monopolies to reduce alcohol problems in their communities.

In the debates around alcohol policy in the early 1900s, monopolies were seen as an alternative to total prohibition that could allow legal alcohol sales while keeping social problems to a minimum. With the repeal of prohibition in the 1920s and '30s, all Canadian provinces and a number of US states set up government mono-polies on wholesale and, in most cases, retail sales of liquor and wine. Legislators had two main reasons for creating these monopolies: to generate government revenue and to limit the harmful effects of alcohol use.

Today, alcohol monopolies face a recurring threat of privatization. In the most extreme case, the state of Iowa dismantled the whole of its retail sales monopoly in the mid-1980s. In September 1993, the province of Alberta announced plans to sell off its Liquor Control Board stores and move to a system of licensed private retailers.

More common, however, has been a piecemeal erosion of individual aspects of the system. In Quebec, for example, the provincial government allows the sale of some wines in grocery and corner stores. And in Ontario, the LCBO has licensed a number of "agency stores" and wine booths located in grocery stores. Meanwhile, a total of six U.S. states have privatized wine sales.

North American alcohol monopolies have also come under pressure as a result of trade arrangements such as the Canada-U.S. Free Trade Agreement (FTA), the proposed North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT). Such trade agreements tend to make little or no provision for public health considerations. Instead, they view government monopolies as impediments to free trade.

Under these agreements there have been several disputes and changes affecting the marketing and availability of alcoholic beverages. In Canada, for example, free trade with the United States has forced an end to preferential pricing of domestic wine and spirits. Meanwhile, Canadian and U.S. brewers have launched complaints before the GATT protesting barriers limiting access to each other's markets.

It should be noted that there is no real public health justification for protectionist measures that treat local and imported alcoholic beverages differently. Alcohol problems are generally related to the the amount of alcohol consumed, not its country of origin.

Complaints brought by U.S. brewers resulted in a 1991 GATT ruling that several Canadian regulations were discriminatory in effect. Among these were measures that can play a significant public health role, including price mark-ups and minimum price requirements. In other instances, market "harmonization" seems to be increasing opportunities for foreign manufacturers rather than reducing the privileges of domestic producers.

These changes, together with proposals for extended hours of sale, more outlets and credit card purchases, threaten step by step to "ratchet open" controlled markets and strip alcohol monopolies of the ability to regulate alcohol sales in the public interest.

ALCOHOL MONOPOLIES & PUBLIC HEALTH

Alcohol monopolies can be an effective way to balance public health concerns against fiscal interests and customer convenience.

There is a growing body of research linking alcohol availability both to the level of overall consumption and to rates of related problems. Studies have shown that as the number of outlets and their days and hours of operation increase, so do rates of problems such as alcohol dependence, liver cirrhosis, traffic crashes and arrests for public drunkenness.

In one dramatic example, the 1969 liberalization of Finland's alcohol laws resulted in the opening of over 2,000 beer outlets, a 124 per cent rise in beer drinking and a 46 per cent increase in overall alcohol consumption. Between 1968 and 1975 an increase in Finnish per capita alcohol consumption of almost 50 per cent was accompanied by a 157 per cent jump in deaths from liver cirrhosis and a 67 per cent increase in alcohol-related traffic accidents.

In Ontario, a 1982 ARF study of alcohol problems in the province's 46 counties found a close link between the number of alcohol sales outlets and the rates of consumption and of problems such as alcoholism, liver disease and suicide.

Other research in Canada, Britain, the United States and Europe has consistently found that, like other consumer goods, as the price of alcohol rises, consumption declines and as prices drop, consumption increases (See ARF Best Advice, "Alcohol and Tobacco Taxes: A Public Health Priority"). One American study that measured the impact of price on alcohol consumption by young people aged 16 to 20 years found that a 10 per cent increase in the price of beer resulted in a 14.8 per cent drop in the number of young people who drank three to five beers per day. The study also found that increases in beer prices did not lead to increased wine and liquor consumption.

Measures which limit availability and regulate prices can therefore play an important role in reducing alcohol consumption and related harm.

Government monopolies can be a particularly effective way to maintain reasonable limits on alcohol availability and directly control the circumstances under which it is sold. In a free market, by contrast, a commodity's availability tends to expand to meet the potential demand. This has generally proven to be the case with alcohol.

The privatization of wine sales in Quebec and a number of American states has generally resulted both in more outlets and in longer hours of operation.

In gauging the direct impact of alcohol monopolies or privatization on consumption, simple comparisons between different jurisdictions can overlook economic or cultural factors that influence alcohol use. Studies that assess the impact of regulatory changes within a given jurisdiction while accounting for other factors which influence consumption are generally more reliable.

While results are uneven, there is a growing body of evidence that monopolies can limit overall alcohol consumption. For example, studies of the privatization of wine sales in several U.S. states have found significant increases in both wine and overall alcohol consumption. Similarly, one study, which controlled for nation-wide sales trends, found that the 1987 privatization of liquor retailing in Iowa resulted in a relative increase in liquor sales and a rise in per capita alcohol consumption.

As well as regulating general availability, alcohol monopolies can provide a basis for other important public health measures. Each year, as part of its commitment to social responsibility, Ontario's LCBO challenges about 130,000 customers who appear to be intoxicated or under-aged. Of these roughly one in 10 is refused service.

A system of government-run stores can also provide a workable setting for health-related educational materials and campaigns around issues such as drinking and driving. Because of their centralized administration and their ability to undertake initiatives that do not directly contribute to profits, state monopolies are in a better position than privatized systems to undertake these kinds of prevention activities.

In short, there is a considerable body of evidence to support the common sense proposition that by restricting availability and promoting public health, government alcohol monopolies can limit overall consumption and reduce alcohol problems.

A recognition of this connection between alcohol marketing, consumption and related problems may lie behind the generally high level of support among Ontarians for the province's current system of alcohol controls. A 1992 Addiction Research Foundation survey found that only 10.6 per cent of those asked wanted more LCBO stores, while 15.5 per cent felt they should stay open longer. By contrast over three-quarters of those surveyed supported the status quo, while roughly one in ten wanted fewer stores and shorter hours. The same survey found that 77 per cent oppose the sale of liquor in corner stores although they are more evenly split on corner store sales of wine (49 per cent opposed) and beer (55 per cent opposed).

ALCOHOL MONOPOLIES AND GOVERNMENT REVENUE

As well as promoting public health, state alcohol monopolies can be an efficient means of raising government revenue. Comparisons in the U.S. between monopoly states and those with a system of licensed private retailers have shown that monopolies generate more state revenue than license systems. This finding is consistent despite the fact that monopolies tend to pay their employees higher wages and have slightly lower retail prices.

In the case of Iowa, privatization lead both to *higher* consumer prices and to *lower* state revenue. This apparent inefficiency of license states in generating government revenue seems to result from two factors: the increased overhead and distribution costs of a system with many private outlets and the need to allow a profit margin for licensed retailers. In Iowa, these factors led the government to reduce its markup to allow private retailers a greater profit.

That said, it is important that the monopoly's potential to generate revenue not take precedence over its role in reducing alcohol-related problems. Monopolies that are motivated purely by commercial concerns are more open to attack on the grounds that their existence unreasonably restricts private business. The social cost of aggressive alcohol marketing - whether by state or private retailers - would be measured in increased disease, accidents and work and family problems.

THE FUTURE FOR ALCOHOL MONOPOLIES

Given current trends, alcohol monopolies are likely to face continued attacks, whether from champions of unfettered free enterprise, would-be private alcohol retailers or alcohol manufacturers seeking foreign markets.

Governments have an interest in preserving and strengthening existing alcohol monopolies. Ultimately,

state alcohol monopolies are justified by what makes them unique - their ability to balance fiscal objectives against the broader public interest.

By restricting availability, establishing minimum prices and refusing to serve minors, monopolies are able to address long-term public health concerns while still generating revenue and responding to consumer demand. The inconvenience such measures may cause to some low risk drinkers seems a small price for the significant reduction of alcohol problems that can result.

RECOMMENDATIONS

Given the health and social costs associated with the sale and use of alcohol, the Addiction Research Foundation believes it is in the public interest for governments to maintain and strengthen state alcohol monopolies as a means of preventing alcohol-related problems.

To ensure that government alcohol monopolies are effective in minimizing alcohol problems, public health objectives should be an integral part of their mandates, policies and day-to-day operations.

At the same time governments should seek formal recognition in international trade relations both of alcohol's special status as a commodity and of the right of government agencies to regulate domestic alcohol markets as a public health measure.

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